Decision 03-04-027 April 3, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Revenue Allocation Proceeding (RAP) Application of San Diego Gas & Electric Company (U 902 E) for Approval to Recover Electric CARE and Electric Low Income Energy Efficiency Costs.	Application 02-11-031 (Filed November 14, 2002)

O P I N I O N

Summary

San Diego Gas & Electric Company (SDG&E) requests to recover in 2003 its costs and accrued under-collections in related balancing accounts that are not currently in rates for its electric California Alternative Rates for Energy (CARE) and electric Low-Income Energy Efficiency (LIEE) programs. Decisions (D.) 02-09-021 and D.02-12-019 authorized the 2002 and 2003 program costs, respectively. This decision grants, with some modifications, the authority requested by SDG&E. This decision allows the amortization of balances attributable to large customers' Transition Cost Balancing Account (TCBA) over-collections as a credit to reduce customers' bills. It denies SDG&E's request to use the over-collection to offset the LIEE and CARE revenue requirements allocated to large retail customers.

Background

SDG&E filed Application (A.) 02-11-031 on November 14, 2002 seeking an ex parte order to recover in retail rates the 2002 CARE budget adopted in D.02-09-021 and the 2003 LIEE budget adopted in D.02-12-019. SDG&E's Revenue Allocation Proceeding (RAP) was filed under authority granted by

D.96-12-088. This is the proceeding in which the Commission reviews retail rates and makes any necessary changes to implement the effects of numerous other proceedings. D.02-09-021 directed SDG&E to file its adjustments to the 2002 CARE electric rate components in a RAP reflecting the current revenue requirement and to amortize any current under or over-collections in the CARE balancing account. D.02-12-019 adopted SDG&E's 2003 Low Income Assistance Programs and Funding revenue requirement.

CARE and LIEE are both "Public Purpose Programs" intended to fund and implement certain public policy decisions of the California State Legislature.

SDG&E requests authority in this RAP to:

1. Recover SDG&E's 2002 CARE and 2003 LIEE revenue impacts through its electric Public Purpose Program (PPP) rate, including amortization of the balancing account balances.
2. Establish separate Low-Income (LI) rate components for CARE and LIEE, and Non-Low Income (non-LI) rate components for Energy Efficiency (EE), Research, Demonstration & Development (RD&D) and Renewable energy from the total PPP unbundled rate.
3. Transfer $23.9 million from the total over-collection of the large customers' portion of the Transition Cost Balancing Account (TCBA) to the electric LIEE Balancing Account (LIEEBA) and electric CARE Balancing Account. Large customers are those with demand in excess of 100 kW).
4. Adopt a new LIEEBA to differentiate Low-Income and Non-Low-Income components in order to track authorized funding.
5. Adopt an annual advice letter procedure to update the electric PPP regulatory accounts in an October filing each year for rates to be effective on the subsequent January 1.

Procedural History

SDG&E filed its application on November 14, 2002 and notice appeared in the Commission's November 21, 2002 daily calendar. No party protested or filed comments. The Commission made a preliminary finding in Resolution ALJ 76-101, issued on November 21, 2002, that the category for this proceeding is ratesetting and determined that the matter did require hearings. We have considered our preliminary determinations and find that a hearing is not necessary. The proceeding was uncontested and SDG&E made a sufficient and complete filing.

Revenue Impacts

There are four components to SDG&E's requested 2003 revenue requirement changes as summarized in the table below. Also shown is SDG&E's proposed offset to the large customers' allocation of these costs.

SDG&E Request 2003 Revenue Impact	**Millions**	
LIEE 2003 Annual Shortfall	$ 5.00	(6.7 x 9 months)
LIEEBA Under-collection 3/31/03	$ 2.00	
CARE Annual Shortfall	$ 9.80	(13.0 x 9 months)
CARE Balancing Account Under-collection 3/31/03	$23.20	
Total Projected by SDG&E	$40.00	
Proposed Offset for Large Customers		
2003 TCBA Over-collection for Large Customers	$16.00	
2004 TCBA Over-collection for Large Customers	$ 7.90	
	$23.90	

Separate Low-Income and Non-Low-Income Rate Components

a. Low-Income Programs

SDG&E proposes to create separate rates for Low-Income CARE and LIEE costs, and separate Non-Low-Income rates for EE and RD&D costs.[1] In making this proposal SDG&E relies on Pub. Util. Code § 399.8,[2] that SDG&E believes mandated a ceiling for Non-LI programs at the January 1, 2000 rate level, and both § 399.9 and § 382 that do allow LI program rates to change based upon Commission adopted program needs, subject to a floor of the funding levels for CARE and LIEE in effect in 1996.

b. RD&D and Renewables

SDG&E proposes to further unbundle the PPP charge for RD&D and Renewables. Both programs already have separate balancing accounts to record program costs and SDG&E assigns revenues as a portion of the current PPP revenue based upon the program's percentage of total PPP.

c. Separate Rates

SDG&E proposes to identify the different components within a single PPP rate. The Prepared testimony of Mohamed A. Derbas states that SDG&E "will effectively split the total PPP rate into Low income (LI) PPP and Non-Low Income PPP rate components."[3] Considering the number of separate balancing accounts now in effect, the varying restrictions on the costs and revenues for the

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[1] See Application, page 7 and page II-1 of the prepared testimony of Mohamed A. Derbas.

[2] All statutory references are to the Public Utilities Code unless otherwise indicated.

[3] Page II-1

programs and/or the customer classes' responsibilities to pay for these programs, the important consideration is that the PPP rate is correctly calculated. Separate balancing accounts, approved by the Commission, can assure customers that the authorized program costs are correctly recorded and any over or under-collection is correctly dealt with so that customers pay only the reasonable costs of all programs included in the PPP rate. SDG&E proposes to expand its disclosure in the tariff schedules to demonstrate its compliance with § 399.8 that limits the Non-Low-Income component to not exceed the rate in effect on January 1, 2000. There is no rate effect to this proposal and we find it reasonable.

In order to fully implement § 399.8 and 399.9 we will adopt SDG&E's proposed LIEEBA discussed below. SDG&E shall continue to calculate the PPP rate recognizing the individual requirements of each program that make up the PPP rate.

Offsetting Large Customers' Rate Impact

SDG&E proposes that for large customers it would offset the $23.9 million in revenue requirements due to LIEE and CARE programs by transferring their portion of an over-collection in the TCBA. This over-collection is forecast to be $16 million in 2003 and a further $7.9 million in 2004.[4] We find that this proposal is inconsistent with both generally accepted accounting principles and ratemaking policy. The Commission has been moving towards full unbundling of rates since at least 1997,[5] with the goal of showing consumers the true underlying cost elements that make up their retail energy bills. For example,

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[4] See the prepared testimony of John A. Roy, page I-7.

[5] D.97-08-056, dated August 1, 1997.

§ 399.8 requires specific levels of spending for certain programs, energy efficiency, renewable energy, and RD&D, and the separate collection of those funds by a separate rate component. This requirement prevents any mixing or misuse of the rates charged to customers. The Competition Transition Charge (CTC) over-collection is the result of retail rates providing revenues in excess of need for certain costs identified as eligible for recovery after the end of SDG&E's Assembly Bill(AB) 1890 related rate freeze.[6]

SDG&E's proposed use of the CTC over-collection to offset LIEE and CARE costs allocated to large customers would distort the apparent costs of these programs. SDG&E's proposal is inconsistent with good accounting practices because it mismatches excess revenues for CTC recovery with unrelated PPP costs. When, or if, SDG&E no longer has an accrued CTC over-collection to offset the revenue requirements, the LIEE and CARE costs to these customers would appear to increase. If Commission adopted LIEE and CARE costs were to also increase in a subsequent period, the increase would look much bigger to the customer without the effect of the continued offset. In addition, this approach sends the wrong price signal to customers because it artificially understates the PPP cost component in the prices paid by customers.

SDG&E justifies this offset because it wants to avoid a rate increase for large customers. This goal can be better accomplished by refunding the CTC over-collection directly to customers as a separate credit. In this way, customers will see on their bills the correct cost component for LIEE and CARE program costs, but as long as there are CTC over-collections to be amortized, their total

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[6] AB 1890 (stats. 1996, Ch. 854) provided that certain costs are still recoverable in retail rates after the end of a transition period where retail rates were frozen.

bill payable to SDG&E will still be reduced as proposed by SDG&E. We will order SDG&E to set the LIEE and CARE cost components at the correct full rate, show true bundled PPP rate on bills, and, while there are available CTC over-collections, to separately show the credit amortization. SDG&E may not create a CTC under-collection by this amortization. If there is not an available CTC over-collection then SDG&E may not credit customers' bills.

Low-Income Energy Efficiency Balancing Account

SDG&E already has separate CARE, LIEE, RD&D and Renewables balancing accounts. It proposes to further separate the LI revenue requirements from Non-LI. This currently occurs in separate sub-accounts for energy efficiency programs in the Post 1997 Electric Energy Efficiency Balancing Account (PEEEBA). SDG&E wants to transfer the LI portion of the PEEEBA to a new Low-Income Energy Efficiency Balancing Account (LIEEBA). The PEEEBA would prospectively only record the Non-LI energy efficiency costs and revenues. This separation is intended to facilitate SDG&E's ability to track program costs and revenue collection. We will adopt this proposal because it is consistent with our requirements to separately identify and track program costs.

2003 LIEE Program Costs Were Adopted in D.02-12-019.

The Commission adopted a 2003 program-funding request in D.02-12-019, dated December 5, 2002. In this application SDG&E forecasts that its 2003 electric LIEE balancing account would have a $6.7 million shortfall. This is based on a "50/50" split of LIEE costs between gas and electric programs. The Commission declined to authorize that shift in funding but it did allow SDG&E the option to file an advice letter under authority existing in Ordering Paragraph 12 of D.01-05-033.

On January 14, 2003, SDG&E filed Advice Letter 1468-E/1361-G with the Commission's Energy Division to modify the LIEE program cost allocation between gas and electric rates. SDG&E again requested a 50/50 split. Energy Division reviewed this filing and approved the advice letter on February 3, 2003, effective March 1, 2003, consistent with the filing.

SDG&E's forecast of the $2.0 million under-collection as of March 31, 2003 and the annual shortfall of $6.7 Million[7] are adopted in this decision as a reasonable forecast using the data available now. The ratepayers and SDG&E are protected by the balancing accounts if the forecast is significantly in error

Nine-Month Recovery Period

SDG&E proposes to recover the increase in program costs over a nine-month amortization period from April 1 through December 31, 2003. The rate changes proposed in the application and as modified herein reflect the recovery of the twelve-months' costs over this shorter period. This request is reasonable to avoid unnecessary under-collections.

Advice letter Up-dates

SDG&E proposes an annual advice letter filing in October to provide a regular update procedure for PPP regulatory accounts for rates to be in effect on the subsequent January 1st. It cites a similar procedure for its gas rates established by D.94-12-052 in a Biennial Cost Allocation Procedure (BCAP). This proposal will normally allow rates to be in effect for the full twelve-months every year and avoid the need for a similar, faster, amortization as we adopt for 2003 program costs.

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[7] See the prepared testimony of John A. Roy, page I-6.

SDG&E does not consider all of the timing implications of processing an advice letter for approval. The advice letter could, for example, be subject to protests under the Commission's General Order 96-A and could likely require a resolution that would have to be approved by the Commission no later than the last Commission meeting in December in order to be effective on the subsequent January 1st.

We will adopt the proposal with the added clarification that the advice letter is due no later-than October 1st every year in order to provide the Energy Division and interested parties sufficient time to review the filing and to allow enough time for a resolution to be considered by the Commission at one of its regular December business meetings. This decision does not bind the Commission to meet this schedule. These advice letter filings do not substitute for reasonableness reviews of past activities; they may only address rate implementation of changes adopted by the Commission to SDG&E's PPP revenue requirements.

Reduction of Comment Period

The draft decision of the administrative law judge was mailed to the parties on March 18, 2003. Pursuant to Rule 77.7(f)(9) of Pub. Util. Code § 311(g)(2), comments on draft decision may be reduced. Parties have stipulated to reduce the comment period to 10 days.

On March 28, 2003, SDG&E served timely comments on the draft decision. Three items were discussed. SDG&E first clarified that its intention in differentiating Non-Low-income and Low-Income components of the PPP rate in the "Notes" section of the tariffs is intended to demonstrate its compliance with § 399.8. We agree with this clarification and make the appropriate changes to the decision. Secondly, SDG&E asked that the resulting rates be implemented on the first day of the next month's billing cycle following the filing of the compliance advice letter. We find the request to be of no harm to ratepayers and make the appropriate changes to the decision.

With respect to one other material difference in the proposed decision from the application, SDG&E accepts the directive to adjust the large-customer CTC credit rather than offset the increase to the PPP revenue requirements of large-customers.

Assignment of Proceeding

Carl Wood is the Assigned Commissioner and Douglas Long is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There are no disputed material facts and hearings are not needed.

2. Unless there is a rate increase to recover under-collections in balancing accounts and authorized increases for 2003 electric revenue requirements, SDG&E would be likely to under-collect electric revenues.

3. SDG&E allocated the LIEE revenue requirements adopted in D.02-12-019 consistent with Advice Letter 168-E / 1361-G, which was effective March 1, 2003.

4. A new Low-Income Energy Efficiency Balancing Account (LIEEBA) to segregate Low-income and Non-Low-Income Public Purpose Program (PPP) costs is necessary.

5. Allowing SDG&E to differentiate the Low-Income and Non-Low-Income components of the PPP rate in the notes to its tariff permits SDG&E to demonstrate compliance with Pub. Util. Code § 399.8.

6. SDG&E's proposal to offset PPP revenue requirements for large customers with over-collections in the Transition Costs Balancing Account (TCBA) is not

consistent with good accounting practices or the Commission's ratemaking policy.

7. Applying correct accounting practices and the Commission's ratemaking policy principles would require SDG&E to separately credit TCBA refunds on customer bills.

8. SDG&E's proposal for an annual advice letter up-date to the Public Purpose Program balancing accounts is reasonable, provided it is filed by October 1, in order to be effective on the following January 1.

Conclusions of Law

1. The rates as modified and authorized today are reasonable.

2. Authorizing a separate LIEEBA, operating in conjunction with the other balancing accounts for public purpose programs, is consistent with §§ 399.8 and 399.9.

3. It is reasonable to adopt the annual advice letter up-date procedure.

4. The advice letter schedule cannot bind the Commission to act by a date certain.

5. This order should be effective today to allow the tariff provisions to be implemented expeditiously.

O R D E R

IT IS ORDERED that:

1. We modify the preliminary determination made in Resolution ALJ 176-3101 and make a final determination that evidentiary hearings are not required in this proceeding

2. San Diego Gas & Electric Company (SDG&E) shall file an advice letter no later than October 1st every year to update the various rates adopted by the Commission for its Public Purpose Programs.

3. Within 21 days of the mailing date of this decision, SDG&E shall file with the Energy Division an advice letter with revised tariff sheets in compliance with this decision.

4. SDG&E is authorized to:

a. Recover its 2002 California Alternative Rates for Energy (CARE) and 2003 electric Low-Income Energy Efficiency (LIEE) programs revenue impacts through its electric Public Purpose Program (PPP) rate, including amortization of the balancing account balances.

b. Separately refund as a bill credit $23.9 million from the total over-collection of the large customers' portion of the Transition Cost Balancing Account (TCBA) to the electric LIEE Balancing Account (LIEEBA) and electric CARE Balancing Account. Large customers are those with demand in excess of 100 kilowatts (kW).

c. Adopt a new LIEEBA to differentiate Low-Income and Non-Low Income components in order to track authorized funding.

d. Separately differentiate in the tariffs, but not on retail customers' bills, the Non-Low-Income and Low-Income sub-components of the PPP rate in order to demonstrate compliance with Pub. Util. Code § 399.8.

e. File an annual advice letter to update the electric PPP regulatory accounts no later than on October 1st each year for rates to be effective on the subsequent January 1st.

5. These rates as modified and adopted today are effective on the first day of the billing cycle in the month following the filing of the compliance advice letter required in Ordering Paragraph 3.

6. This proceeding is closed.

This order is effective today.

Dated April 3, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners